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TAGS: [ECON](#) [ETRD](#) [EINV](#) [KIPR](#) [PREL](#) [TH](#)
SUBJECT: 2009: A TOUGH YEAR FOR THE THAI ECONOMY AND RECOVERY MAY
NOT BE ALL IT COULD BE

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1.(SBU) SUMMARY: After dropping 7 percent early in the year, Thailand's GDP recovered to where the government now expects 2009 to be only 3 percent worse than 2008. With exports picking up and tourism bouncing back, 2010 may see 3 percent growth. The Abhisit government implemented a number of economic programs to bolster its standing among lower-income and rural voters, was responsive to U.S. concerns on troublesome customs issues, but has not yet been able to transform well-intentioned policy innovations into widespread political support. As epitomized by the shutdown of projects at the huge Map Ta Phut industrial estate for failure to meet environmental standards, Thailand's economy may be in for slower economic growth in the next years as the country absorbs increasing, but uncertain, impact from NGOs, independent commissions and activist courts. END SUMMARY.

12. (SBU) COMMENT: The economists we note at the end of this message told us that, harking back to when they got burned in the 1997 crisis, the powerful, monied elites in Bangkok are willing to forego more rapid growth in the Thai economy if need be to protect their comfortable oligopolistic business interests. In areas ranging from a tightening of insurance company ownership to a very sluggish opening of the Thai market to the deployment of 3G telecommunications technologies, these elites would rather see slower growth than greater competition, especially from foreigners. We believe the Abhisit government favors economic growth and understands the key role that open markets play in achieving that, but sits atop a difficult coalition representing many vested interests and may not be strong enough to rein in deeply entrenched elites, especially in an increasingly complex political environment. END COMMENT.

Worst is Over; 2010 Should be Better

13. (SBU) Following global trends, Thailand's economy had a rough ride in 2009, with the GDP downturn bottoming out at over 7 percent below 2008 on a year-to-year basis during the first quarter of the year. Fourth quarter results are not yet in, but are expected to show that the worst has passed and that the turnaround is gaining strength. For the year as a whole, the National Economic and Social Development Board (NESDB) estimates that the GDP drop will be no more than 3 percent. These trends are largely driven by exports, which are equivalent to between 60 and 70 percent of Thailand's GDP. For the first half of the year, exports were down about 25 percent from 2008 but with improvement in the second half are expected to be down only about 14 percent for the year as a whole. Tourism also

rallied moderately, after last year's 'high season' was pummeled by Bangkok's airport closure last November, the widely-watched protests in April, and the onset of the global economic crisis, but tourist arrivals remain well down from 2008.

¶4. (SBU) Other economic indicators were also down accordingly. Headline inflation is expected to be about negative 1 percent for ¶2009. Total investment is forecast to be off 8.6 percent for the year, but that figure hides the fact that private investment dropped an estimated 13 percent, while investment by the government was up nearly 10 percent in the second half and will likely grow further as the full effect of the stimulus packages kicks in. Fortunately for Thailand, there is still enough rural-urban labor migration that lay-offs in export factories did not cause a significant jump in unemployment rates as laborers were often able to return to provide extra hands on farms. Widespread unemployment never became a serious social problem, as was feared early in the year; the official unemployment rate (very generous in its definition of employment) never rose above 2 percent.

Policies Still Do Not Win Government Popular Support

¶5. (SBU) The performance of the Abhisit government on the economy this year has been the source of much commentary in the media. Most surveys gave the Prime Minister's team only middling grades, though such survey results may reflect continuing hard economic times as much as clear-headed assessments of the policies implemented. Moreover, with an economy so dependent on world trade and commodity prices, Thailand is to a significant extent dependent on global trends beyond its control. For its part, the government has claimed many successes, including:

- implementation of two stimulus packages (the second and larger of the two for infrastructure projects is only now beginning to kick

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in);

- breathing life, as ASEAN Chair, into the Chiang Mai Initiative, which should eventually provide a regional source for sovereign borrowing apart from the International Monetary Fund;

- free education through high school (public education was always free, but this new program sought to cover books, uniforms and other school fees which had become onerous for many families);

- the extension of free utility services for low-income families, including free public bus service;

- the creation of a slick new "One Start, One Stop" office housing all relevant agencies to facilitate paperwork and approvals for foreign investors;

- a significantly increased effort to promote intellectual property rights, led by Deputy Commerce Minister Alongkorn;

- a guaranteed income scheme for farmers and takeover of onerous informal debt burdens.

¶6. (SBU) When we asked Finance Ministry officials for their views on what were their most important accomplishments this past year, they highlighted the programs in the last bullet above. They were particularly proud of the income insurance program for farmers, whereby the government supplements the income of farmers directly when market prices (for rice, tapioca, and animal feed corn) drop below a certain threshold, as opposed to the previous price guarantee program where the government would intervene in the market and buy up commodities to keep prices up, resulting in sometimes huge agricultural stocks subject to spoil or sale with huge losses. The government claims the new program saves money and eliminates the often corrupt role of middlemen. The second source of pride at the Ministry is a program whereby government-run banks will pay off loan sharks and replace those debts with loans to low-income borrowers at reasonable interest rates. The officials claim that by the end of the year a million people will have taken advantage of the program.

(COMMENT: The Finance Ministry officials we spoke with were almost apologetic that they had spent relatively less time on issues that might have been of greater interest to foreign business people. The Abhisit government is endeavoring to implement policies that will win favor in the rural strongholds of the political opposition, but it is not clear that they have the political skills to turn these policy programs into votes. END COMMENT.)

Progress on Some Bilateral Concerns, Not Others

17. (SBU) The Embassy has advocated with the government on a number of high-profile commercial cases, including meetings between the Ambassador and the Prime Minister, with moderate success. Most have had to do with customs disputes. U.S. companies Amway and Philip Morris, for example, were surprised with the threat of up to \$2 billion in fines and penalties for alleged underpayment of customs duties over the past 10 years. In the case of Philip Morris, despite having reached an agreement with Thai Customs on valuation methodology, Thailand's Department of Special Investigations (DSI) nonetheless felt compelled to forward the case to the Attorney General. In the case of Amway, the Abhisit government has since provided assurance that the matter will be resolved with only a relatively minor penalty. (NOTE: The government also heard loudly from other Embassies whose companies were being similarly treated by Customs. END NOTE.) The government was also responsive earlier in the year to the Ambassador's demarche regarding access to a terminal jetty essential to Dow Chemical's multi-billion dollar petrochemical plant expansion -- the construction of which has now been halted as a result of a court injunction in Map Ta Phut. The case of the online digital lottery is still pending as U.S. company GTECH sits on the sidelines awaiting the launch of the lottery after having invested over \$35 million in the build-out of the infrastructure.

18. (SBU) We told the government that customs problems were our number one difficulty on the business front. Perhaps in response to these complaints, Finance Minister Korn sacked the Director General of Customs, even though he had just three months before retirement (and who under the Customs Department penalty-sharing scheme would have made millions personally if the threatened huge penalties against foreign firms had materialized). Korn since installed a hand-picked Customs Director General, who announced bold plans to

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transform the Customs Department from a "revenue collector" to a "trade facilitator." The new DG has let it be known that he did not pay anything to get his position, and thus does not need to perpetuate "off-book" revenue generation.

19. (SBU) On other matters, the government has not been so responsive. After beginning its administration early in the year with a series of large-scale, interactive meetings with the foreign business community, Abhisit and his economic team have not followed up effectively on a number of complaints and recommendations. Despite a demonstrably increased effort to protect and promote IPR, including having the Prime Minister himself lead the national IPR committee, Thailand remains a significant source of pirated goods with few takedowns of major IPR violators. Efforts by FedEx to remedy the antiquated postal regime whereby they have to pay fines for delivery of international express mail have gone nowhere. The pharmaceutical industry continues to struggle to get a seat at the table as Thailand's National Health Assembly and its subcommittees discuss key issues like patent reform, a call for a certain number of compulsory licenses to be issued every year in Thailand, and pharmaceutical marketing and sales practices.

Uncertainties at Map Ta Phut: The Beginning of a Trend?

110. (SBU) By the end of the year, the dominant issues with regard to Thailand's investment climate revolved around the court-ordered shutdown of 65 construction projects at Map Ta Phut, Thailand's premier industrial estate, for failure to comply with the 2007 Constitution's requirements for environmental and health impact assessments. While the validity of community groups' complaints about some companies' poor environmental practices were generally

acknowledged, the government was caught flat-footed when the courts required strict compliance with the constitutional mandates, even though the government itself had not put in place the necessary regulations and procedures for companies to comply with the law. The Ministry of Natural Resources and Environment and the Industrial Estate Authority of Thailand (IEAT) had already issued environmental certifications and construction permits allowing the projects to proceed. Both Thai and foreign companies, with billions of dollars at stake and the prospect of laying off tens of thousands of workers, are deeply troubled that what were thought to be low-risk ventures are now thrown into question.

¶11. (SBU) When the Embassy convened a group of leading economists to comment on Thailand's economic prospects earlier this month, the consensus was that the uncertainties that surfaced in Map Ta Phut were the manifestation of strong currents that have been growing under the surface for several years. While business in Thailand has traditionally relied on informal "work-arounds" to deal with difficult laws and regulations, that means of doing business may be coming to an end with the rise in influence of NGO's, independent committees and commissions, and, especially, activist courts. The ability of foreign companies to control local ostensibly "Thai" firms through proxy voting structures and the ability of foreigners to effectively own land through the use of nominees are but two additional areas where strict compliance with the law would throw many foreign business practices into upheaval.

¶12. (SBU) The economists noted that Thailand should be poised to regain the 6-8 percent growth that neighboring countries are expected to enjoy in the coming years. But the growing uncertainties in the investment environment, coupled with the general political uncertainty, will likely continue to dampen investment and keep Thai growth to no more than 3 percent in the coming years. (NOTE: Other forecasts range from 3-5 percent. END NOTE.) "We appreciate that the new civil society groups represent many worthwhile interests," one economist said. "But we don't know how competent these groups are and there is no overall vision or strong leadership in the government. It all adds up to a lot of uncertainty for business investors."

JOHN